



Standard Industries Ltd.

1978 ANNUAL REPORT



March 31, 1978
SUPPLIERS OF BASIC BUILDING MATERIALS



Standard Industries Ltd.

1224 Lawrence Avenue West
Toronto, Ontario M6A 1E4
(Telephone (416) 781-5211)

OUR BUSINESS

Standard Industries Ltd. is one of the largest Canadian producers and suppliers of basic building materials.

It produces and markets sand, gravel and crushed stone, asphalt mixes, ready-mix concrete, concrete pipe and block, prestressed concrete pressure pipe, other precast concrete products, slag cement, and bagged dry-mix products; it is also a street paving and highway contractor.

Its market areas are in heavily-populated southern and eastern Ontario, the North Bay area of Ontario, the province of Nova Scotia, and, in the United States, Sullivan and adjoining counties of New York State.

The company is publicly owned by 996 shareholders, including Canada Cement Lafarge Ltd. and Pitts Engineering Construction Limited (holding approximately 49% and 33% respectively). The shares are listed on the Toronto Stock Exchange and traded under the symbol SIS. Dividends have been paid in every fiscal year since 1948.

ANNUAL MEETING

The Annual General Meeting of Shareholders will be held in the Alberta Room of the Royal York Hotel, Toronto, at 10:30 a.m. on Thursday, June 15, 1978. All shareholders are cordially invited to attend.

VALUATION DAY VALUE

For the purpose of calculating income tax on capital gains, the value of the company's shares as established December 22nd, 1971 is \$3.83 $\frac{1}{3}$ per share.

COVER PICTURE

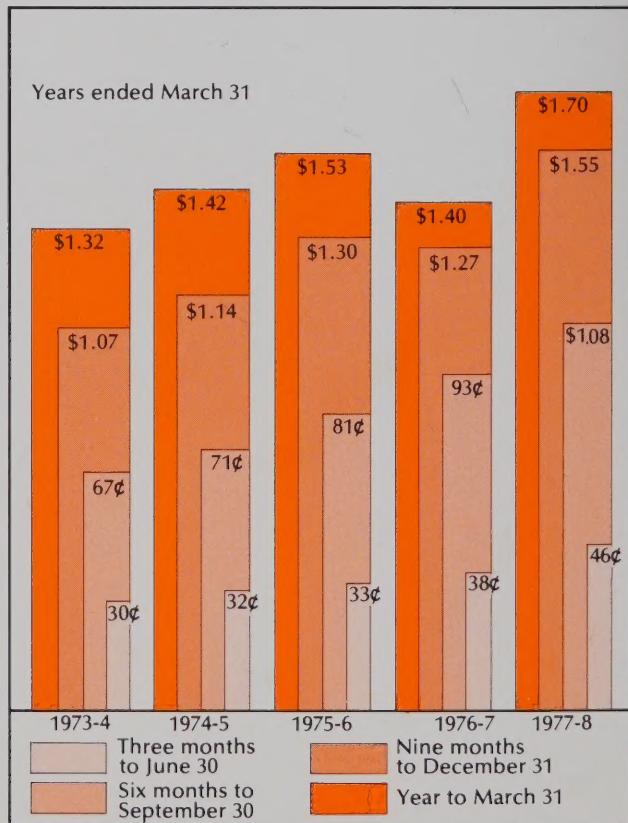
Bridgeville Quarry, Sullivan Highway Products, Inc.

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INCOME PER SHARE

(before extraordinary items)



STANDARD INDUSTRIES LTD.

1224 Lawrence Avenue West
Toronto, Ontario
M6A 1E4

NOTICE OF THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS

TAKE NOTICE that the Annual General Meeting of the Shareholders of Standard Industries Ltd. will be held in the Alberta Room, the Royal York Hotel, 100 Front Street West, Toronto, Ontario on Thursday, the 15th day of June, 1978, commencing at the hour of 10:30 o'clock in the forenoon, Eastern Daylight Time, for the following purposes:

- (1) To receive and consider the financial statements with the report of the auditors thereon and the report of the Directors for the year ended March 31, 1978.
- (2) To elect Directors for the ensuing year.
- (3) To appoint auditors and authorize the Directors to fix the auditors' remuneration.
- (4) To transact such other business as may properly come before the meeting or any adjournment thereof.

DATED at Toronto this 9th day of May, 1978.

By Order of the Board,

T. D. Jones,
Secretary.

If you do not expect to be present in person at this meeting, please complete the accompanying form of proxy and return it in the enclosed return envelope.

STANDARD INDUSTRIES LTD.

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Standard Industries Ltd. (the Company) of proxies to be used at the Annual General Meeting of Shareholders of the Company to be held at the time and place and for the purposes set forth in the notice of meeting. The cost of solicitation will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons designated in the enclosed form of proxy are directors of the Company. A shareholder desiring to appoint some other person to represent him at the meeting may do so by striking out the names of the persons designated and by inserting such other person's name in the blank space provided in the form of proxy. A person acting as proxy need not be a shareholder of the Company.

A shareholder who has given a proxy may revoke it by signing written notice of revocation and delivering it to the Secretary of the Company up to the day before the meeting or to the Chairman of the meeting.

EXERCISE OF DISCRETION BY PROXIES

The shares represented by the enclosed form of proxy will be voted and, where the shareholder giving the proxy specifies a choice with respect to any matter to be acted upon, the shares represented by the proxy will be voted in accordance with such specification.

The proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting. At the time of printing this circular the management of the Company knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF, AND INTEREST IN MATERIAL TRANSACTIONS

The Company has outstanding 3,072,069 Class "A" convertible common shares and 75,819 Class "B" convertible common shares, a total of 3,147,888 shares of no par value, each carrying the right to one vote per share.

Canada Cement Lafarge Ltd. (through a wholly owned subsidiary) owns 1,573,779 Class "A" shares, being 49.99% of the outstanding shares of the Company. In the usual course of business the Company buys a substantial portion of its cement requirements from Canada Cement Lafarge Ltd. at prevailing market prices.

Pitts Engineering Construction Limited (through a wholly owned subsidiary) owns 1,049,426 Class "A" shares, being 33.34% of the outstanding shares of the corporation. The corporation from time to time sells materials and products to Pitts in the ordinary course of business and at prevailing market prices.

The directors and senior officers of the Company do not know of any other person or company beneficially owning, directly or indirectly, more than 10% of the outstanding shares of the Company.

Under the provisions of The Business Corporations Act the record date for voting shall be at the time of voting; and the holder of each common share who, on the record date for voting, appears on the records of the corporation as a shareholder is entitled to one vote for each share held by him.

ELECTION OF DIRECTORS

The board consists of eight directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth herein, all of whom are now members of the board of directors and have been during the period indicated. Each director elected will hold office until the next Annual Meeting and until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws.

The following table states the names of all the persons proposed to be nominated for election as directors, all other positions and offices with the Company now held by them, their present principal occupations or employment and any other principal occupations and employments within the five preceding years, the year in which they became directors of the Company, and the approximate number of shares of the Company beneficially owned directly or indirectly by each of them as of April 25, 1978:

	Became Director	Shares*
S. C. Cooper is President of Pitts Engineering Construction Limited, heavy engineering construction contractors.	1967	15
Hugh F. Grightmire is Chairman and Chief Executive Officer of the Company.	1971	47,084
J. B. Hanly is a consultant. He was formerly a Vice-President of Canada Cement Lafarge Ltd., manufacturers of cement.	1963	1,700
J. D. Jarrell is Senior Vice-President of Pitts Engineering Construction Limited, heavy engineering construction contractors.	1974	350
P. Jongeneel is Senior Vice-President and Treasurer of Canada Cement Lafarge Ltd.	1971	100
D. G. Lawson is President of Moss Lawson & Co., Limited Investment Dealers.	1965	3,000
T. H. Stevenson is former President of Permanent Concrete, producers of ready-mixed concrete, and a corporate director.	1970	10,000
T. A. Wilcox is President of the Company.	1976	3,100

(*The information as to shares beneficially owned, not being within the knowledge of the Company has been furnished by the respective nominees individually.)

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Aggregate direct remuneration paid or payable by the Company and its subsidiaries in the year ended March 31, 1978 to the directors and senior officers of the Company \$ 505,000

Estimated aggregate cost to the Company and its subsidiaries in the year ended March 31, 1978 of all pension benefits proposed to be paid to the directors and senior officers of the Company under any normal pension plan in the event of retirement at normal retirement age \$ 53,000

A senior officer of the Company has been granted an option to purchase 62,500 unissued shares of the Company at a price of \$9.00 per share exercisable as to 12,500 shares after July 1, 1978 and as to the remainder after various dates from July 1, 1979 to July 1, 1982. The options expire March 31, 1983.

During the 30 days preceding October 28, 1976, the date of the grant, the quoted price range of the Company's stock was \$9.50 to \$10.00.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the appointment of Thorne Riddell & Co., Chartered Accountants, Toronto, as auditors of the Company, to hold office until the next Annual Meeting of Shareholders and to authorize the Board to fix their remuneration. Thorne Riddell & Co. and their predecessor firm, Thorne Gunn & Co., have been auditors of the Company for more than five years.

By Order of the Board of Directors,



In Brief

EARNINGS AND DIVIDENDS

	March 31 1978	March 31 1977
Income (before extraordinary item)	\$ 5,342,000	\$ 4,404,000
Per share	\$1.70	\$1.40
Gain on disposal of properties	641,000	—
Per share	\$0.20	—
Net income	5,983,000	4,404,000
Per share	\$1.90	\$1.40
Dividends to shareholders	2,125,000	2,000,000
Per "A" share	67.5¢	63.75¢
Per "B" share	67.5¢	54.1875¢

OTHER FINANCIAL

Sales	\$93,982,000	\$84,079,000
Capital investment during the year	9,554,000	8,799,000
Working capital at year end	8,051,000	6,463,000
Shareholders' equity per share	\$11.88	\$10.65

STATISTICAL

Number of employees —		
mid-year	1,613	1,630
year end	1,000	980
Number of shareholders, year end	996	1,030

HIGHLIGHTS

Income (before extraordinary item) increased by 21.3%, on sales which increased 11.8% in dollar volume. The quarterly dividend payment was raised to 17.5¢ per share February 3, 1978, from 16.25¢. Manufacture of slag cement and prestressed concrete pressure pipe has completed its first full year, with gratifying results. A new U. S. subsidiary, Sullivan Highway Products, Inc., acquired an existing asphalt and quarry business in New York State, financed in part by the issue of U. S. \$4,000,000 long term notes.



Directors and Management

DIRECTORS

S. C. COOPER

President and a Director of Pitts Engineering
Construction Limited

HUGH F. GRIGHTMIRE

Chairman and Chief Executive Officer of the Company

J. B. HANLY

Consultant — former Vice-President of
Canada Cement Lafarge Ltd.

J. D. JARRELL

Senior Vice-President and a Director of Pitts Engineering
Construction Limited

P. JONGENEEL

Senior Vice-President and Treasurer of Canada Cement
Lafarge Ltd.

D. G. LAWSON

President of Moss Lawson & Co. Limited

T. H. STEVENSON

Corporate Director

T. A. WILCOX

President of the Company

CORPORATE MANAGEMENT

HUGH F. GRIGHTMIRE

Chairman and Chief Executive Officer

T. A. WILCOX

President

T. D. JONES

Vice-President and Secretary-Treasurer

G. H. HAWKETT

Comptroller

E. J. HADDEN

Assistant Secretary-Treasurer

REGISTRAR AND TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY

20 Eglinton Avenue West, Toronto, Ontario

AUDITORS

THORNE RIDDELL & CO.

Chartered Accountants
Commercial Union Tower
Box 262
Toronto-Dominion Centre
Toronto, Ontario

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE

BANK OF NOVA SCOTIA

MANAGEMENT OF SUBSIDIARIES AND DIVISIONS

A. H. BAXTER — Vice-President

Red-D-Mix Concrete Company, Standard Paving Company,
North Bay Concrete & Supply Company, E. V. Breckon Limited

E. F. FORD — Vice-President

McCord & Company, York Block and Building Supply, Marker
Building Materials

M. E. MCRAE — Vice-President

Concrete Pipe Company, Oaks Precast Industries, Oaks
Transport Limited, Standard Pressure Pipe Company

C. C. MOYER — Vice-President

Consolidated Sand & Gravel, Company, J. F. Marshall & Sons,
Jiffy Dry-Mix Concrete Products Ltd., Pointe Anne Quarry
Company, Brechin Crushed Stone Company, Haldimand
Quarries and Construction Limited

P. W. REARDON

President of Sullivan Highway Products, Inc.

R. F. TITUS — Vice-President

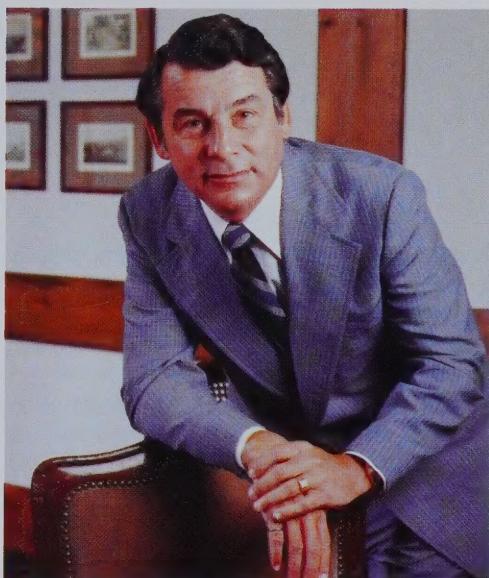
President of Standard Paving Maritime Limited



Report to Our Shareholders



Hugh F.
Grightmire,
Chairman
and Chief
Executive
Officer

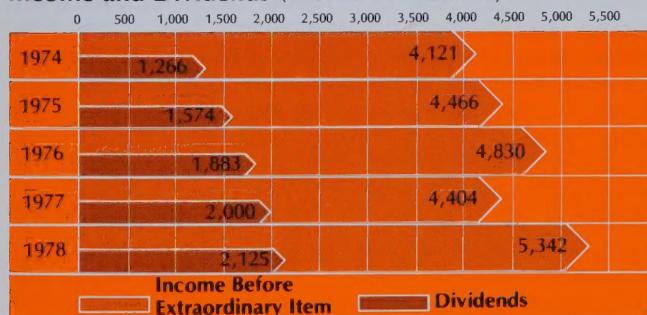


T. A.
Wilcox,
President

EARNINGS, SALES AND DIVIDENDS

Your company's earnings resumed their upward trend in the year just completed. Income (before extraordinary item) of \$5,342,000 — \$1.70 per share — was 21.3% better than \$4,404,000 — \$1.40 per share — in the year to March 31, 1977. Sales of \$93,982,000 were 11.8% higher than last year's \$84,079,000.

Income and Dividends (Thousands of Dollars)



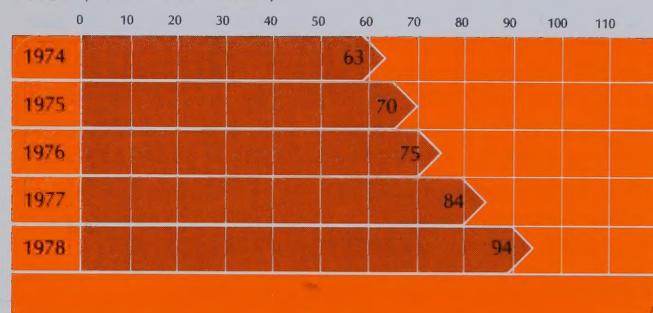
An extraordinary gain of \$641,000 resulted from the sale of a parcel of surplus land adjoining our Toronto concrete pipe plant.

Quarterly dividend rates were raised with the February 3, 1978 dividend to 17.5¢ per share, which conformed to the restraints on dividends imposed by the Anti-Inflation Act. Dividends declared and paid were:

Date Declared	Record Date	Date Paid	"A" Shares	"B" Shares
June 15/77	July 21/77	Aug. 5/77	16.25¢	13.8125¢
June 15/77	July 21/77	Dec. 30/77	—	2.4375¢
Sept. 29/77	Oct. 21/77	Nov. 4/77	16.25¢	13.8125¢
Sept. 29/77	Oct. 21/77	Dec. 30/77	—	2.4375¢
Nov. 24/77	Jan. 20/78	Feb. 3/78	17.5¢	17.5¢
March 15/78	April 21/78	May 5/78	17.5¢	17.5¢
			67.5¢	67.5¢

The Federal budget of March 31, 1977 proposed that tax-deferred dividends (applicable to the "B" shares) be payable without the 15% tax retention that had previously been required. The dividend declarations of June 15 and September 29 were made on that basis, but payment of the 15% retention was delayed until December 30, 1977, shortly after the budget proposals had been enacted into law.

Sales (Millions of Dollars)



REVIEW OF OPERATIONS

The year under review was our second full year of compliance with the pricing restraints imposed by the Anti-Inflation Act, and the third year of the current cycle of depressed business conditions. Nonetheless, our return on sales improved to 5.7% from the previous year's 5.2%, and return on equity to 14.3% from 13.1%.

These results were not obtained without a great deal of effort by our employees, and would not have been possible without our recent major investments in production facilities for slag cement and prestressed concrete pressure pipe.

Demand for aggregates and ready-mix concrete continued to be depressed. Profit margins in some



Report to Our Shareholders

(continued)

market areas were better than in the previous year but generally did not yield an adequate return on the investment required. Asphalt mixes maintained sales quantities with some improvement in margins.

Our concrete pipe and precast products maintained their position in the market but with some erosion in margins due to pricing pressures. Prestressed concrete pressure pipe completed its first full year with satisfactory results; our confidence in this operation has been amply justified.

The slag cement plant has also done well in its first full year and the product has been well received by the market.

The Jiffy line of products has continued its profitable penetration of an expanding market for home-improvement materials.

Construction operations in Nova Scotia had an excellent year, with record sales and earnings. This was partially offset by a decline in the Ontario construction division, where contracts were scarce and margins low.

Our associated companies provided satisfactory contributions to our earnings. These companies, which are very effectively run, are in the businesses of processing blast-furnace slag and manufacturing rubber gaskets for concrete pipe.

The operations of Sullivan Highway Products, Inc. cover only one month and have been included in consolidated earnings of the fourth quarter.

Return on Sales (Income* as percent of Sales)



CAPITAL INVESTMENTS

The most significant capital investment during the year was the purchase of the Sullivan Highway Products assets, explained in Note 8 to the financial statements. The fixed assets included in this

purchase, amounting to \$3,246,000, consisted of three quarries, one sand and gravel plant, five asphalt-mix plants, a paving and road-building operation and 2,300 acres of land, located in Sullivan and adjoining counties of New York State, U. S. A. This is your company's initial venture in the United States and we expect it to make a valuable contribution in future years.

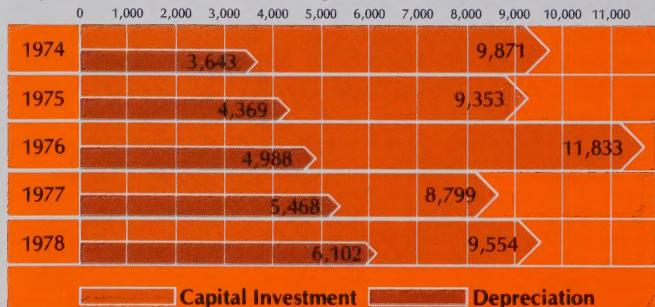
Return on Shareholders' Equity (Income* as percent of shareholders' equity)



*Income before extraordinary item

Several other growth projects were included in capital investment for the year. An asphalt-mix plant was installed at the Hagersville quarry. Reserve capacity is being built at the slag cement plant. A fittings shop is being added to the pressure pipe plant which will increase its manufacturing capability in a specialized field. Equipment for manufacturing "Moduloc" patented interlocking manhole rings has been installed. A new high-capacity ready-mix plant in Hamilton replaces two obsolete smaller plants. Vacant land near the downtown core of Toronto has been purchased for future use as a ready-mix concrete plant site. All these projects account for another \$2,600,000 of investment.

Capital Investment and Depreciation (Thousands of Dollars)



The remaining \$3,700,000 of the total \$9,554,000 investment programme was expended in upgrading



Report to Our Shareholders

(continued)

and renewing plant and equipment so as to maintain adequate production capacity and superior service to our customers.

MANUFACTURE OF ROCK WOOL INSULATION

Your company has decided to enter into the manufacture of rock wool insulation products both for the home, commercial and industrial fields.

We have accordingly made commitments for the purchase of a suitable existing plant, with adequate land at Milton, Ontario. We have signed a letter of intent with a leading Swedish manufacturer for the supply of equipment.

The total cost of the project will approximate \$8,000,000, to be financed from the balance of our bank term credit and from our own internally generated funds.

We expect the project to come on stream early in 1979.

EMPLOYEE RELATIONS

Employment levels were little changed from the previous year. In mid-year, the highest level reached was 1,613 employees, compared with 1,630. At year-end there were 1,000 employees on the payroll, as against 980 the year before.

A number of collective agreements were negotiated during the year, mostly for our smaller operating units. The requirements of restraint were given proper consideration in the bargaining process. In every case, wage settlements were in accordance with the spirit of the control guidelines.

In the coming season most of our major collective agreements will be due for renewal, and many of them will have been released from the restraints of the Anti-Inflation Act. This imposes some responsibility on all parties to the negotiations to avoid unrealistic pre-1975 style settlements in the uncertain economic situation which will prevail during the decontrol period. While payrolls are being progressively released from controls, prices and profit margins will continue to be controlled until at least December 31, 1978 and in some circumstances even after that date.

PROSPECTS FOR 1978/79

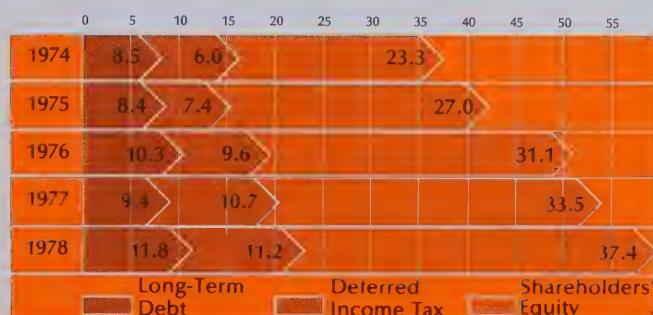
Just as the imposition of anti-inflationary controls produced uncertainty and confusion two years ago, their phased withdrawal in the coming year may well have the same result. This does not create the

climate in which a surge of new business investment can be expected in our market areas, nor is there much encouragement in the general economic scene.

We think therefore that 1978/1979 sales and margins will not show significant improvement. We expect a good return from Sullivan's operations in the U.S. but these are relatively small in relation to our total operations, and their contribution will be offset by start-up costs of the new rock-wool product line.

The coming year therefore looks like a year of marking time until our new projects come on stream and the economy as a whole recovers.

Composition of Invested Capital (Millions of Dollars)



THE LATE MR. J. H. REID

Mr. J. H. Reid, former Chairman of the Board and President of Standard Industries Ltd., passed away on October 25, 1977. He joined the company as comptroller in 1934, and later initiated its expansion into ready-mix concrete and the manufacture of concrete products. He retired as chairman and director in 1975. His unexpected death last year distressed all his former associates in the company and the industry. We extend our deepest sympathy to his widow and family.

APPRECIATION

We are glad to take this opportunity of thanking all of the company's employees for their contributions, and to acknowledge the support of our customers, suppliers and shareholders.

On behalf of the board of directors,

HUGH F. GRIGHTMIRE,
Chairman and
Chief Executive Officer

T. A. WILCOX,
President



Standard Industries Ltd.

CONSOLIDATED INCOME Year ended March 31, 1978

	In Thousands of Dollars	
	1978	1977
REVENUE		
Sales and contract revenue	\$ 93,982	\$ 84,079
EXPENSE		
Cost of sales and operating expenses	72,145	65,256
Administration and selling	6,254	5,579
Depreciation and depletion.....	6,102	5,468
Interest on long-term debt.....	972	1,123
Other interest (net of interest earned)	(29)	25
	85,444	77,451
Income taxes	8,538	6,628
	3,680	2,645
INCOME BEFORE THE UNDERNOTED ITEMS	4,858	3,983
Equity in net income of associated companies	484	421
INCOME BEFORE EXTRAORDINARY ITEM	5,342	4,404
Gain on disposal of properties (net of income taxes thereon \$73,000)	Per share \$1.70	Per share \$1.40
	641	—
	Per share \$.20	Per share \$ —
NET INCOME	\$ 5,983	\$ 4,404
	Per share \$1.90	Per share \$1.40

CONSOLIDATED RETAINED EARNINGS Year ended March 31, 1978

Retained earnings at beginning of year	\$ 29,969	\$ 27,565
Net income	5,983	4,404
Dividends — A shares — 67.5¢ per share (1977 — 63.75¢); B shares — 67.5¢ per share paid out of 1971 Capital Surplus on Hand (1977 — 54.1875¢ paid out of tax-paid undistributed surplus)	(2,125)	(2,000)
RETAINED EARNINGS AT END OF YEAR	\$ 33,827	\$ 29,969



Standard Industries Ltd.

(incorporated under the laws of Ontario)

CONSOLIDATED FINANCIAL POSITION

March 31, 1978

	In Thousands of Dollars	
	1978	1977
CURRENT ASSETS		
Cash and short-term investments at cost which approximates market ..	\$ 3,635	\$ 1,233
Receivables	10,504	8,760
Inventories, valued at lower of cost and net realizable value —		
Finished materials and products	4,917	5,525
Raw materials and supplies	2,431	2,149
Prepaid expenses	931	795
	22,418	18,462
CURRENT LIABILITIES		
Accounts payable and accrued.....	9,414	9,207
Dividends payable.....	551	510
Income taxes	2,435	371
Long-term debt, current portion	1,967	1,911
	14,367	11,999
WORKING CAPITAL	8,051	6,463
MORTGAGES RECEIVABLE , less current portion included with receivables	1,115	770
INVESTMENTS IN ASSOCIATED COMPANIES	1,004	926
PROPERTY, PLANT AND EQUIPMENT , at cost less accumulated depreciation and depletion (note 2)	48,977	45,525
PLANT ACQUISITION FUND (note 3)	1,216	—
CAPITAL EMPLOYED	60,363	53,684
Deduct:		
Long-term debt (note 3)	11,816	9,405
Deferred income taxes	11,157	10,747
	22,973	20,152
SHAREHOLDERS' EQUITY	\$ 37,390	\$ 33,532
Derived from:		
Capital stock (note 5)		
Authorized — 4,000,000 shares of no par value		
Issued — 3,072,069 Class "A" shares		
75,819 Class "B" shares		
3,147,888.....	\$ 3,563	\$ 3,563
Retained earnings	33,827	29,969
Total Shareholders' Equity.....	\$ 37,390	\$ 33,532

Approved by the Board:

Hugh F. Grightmire, Director.
T. A. Wilcox, Director.



Standard Industries Ltd.

CONSOLIDATED CHANGES IN FINANCIAL POSITION

Year ended March 31, 1978

	In Thousands of Dollars	
	1978	1977
WORKING CAPITAL DERIVED FROM		
Operations:		
Income before extraordinary items	\$ 5,342	\$ 4,404
Add (Deduct) items not involving working capital:		
Depreciation and depletion.....	6,102	5,468
Income taxes deferred.....	410	1,181
Excess of equity in earnings of associated companies over dividends received.....	(78)	(140)
	11,776	10,913
Reduction in mortgages receivable.....	190	149
Increase in long-term debt	4,509	1,000
Gain on disposal of properties.....	641	—
	17,116	12,062
WORKING CAPITAL APPLIED TO		
Additions to property, plant and equipment, net	9,554	8,799
Dividends	2,125	2,000
Reduction in long-term debt	2,097	1,911
Increase in mortgages receivable	536	—
Plant acquisition fund.....	1,216	—
	15,528	12,710
INCREASE (DECREASE) IN WORKING CAPITAL	1,588	(648)
Working capital at beginning of year	6,463	7,111
Working capital at end of year	\$ 8,051	\$ 6,463

AUDITORS' REPORT

To the Shareholders of
Standard Industries Ltd.

We have examined the consolidated financial statements, appearing on pages 6 through 11, of Standard Industries Ltd. for the year ended March 31, 1978. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
May 1, 1978

THORNE RIDDELL & CO.,
Chartered Accountants



Standard Industries Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS March 31, 1978

NOTE 1. ACCOUNTING POLICIES

a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Standard Industries Ltd. and its subsidiaries, all of which are wholly owned. The operations of the United States subsidiaries, for the period ended December 31, 1977, have been included in these consolidated financial statements.

b) Investments in Associated Companies (50% or less owned)

Investments in associated companies are accounted for on the equity method. Under the equity method, the company's share of the net income of these associated companies is included in consolidated income each year, and the company's investments in these associated companies are carried in the consolidated financial position at the underlying fair value at the date of acquisition plus the company's share of undistributed earnings since acquisition.

c) Exchange Translation

Assets, liabilities, revenues and expenses of the company's subsidiaries in the United States have been translated into Canadian Dollars as follows:

- i) Current assets, other than inventories, and current and long-term liabilities at the rates of exchange prevailing at their balance sheet date;
- ii) Fixed assets and inventories at rates prevailing when they were acquired;
- iii) Revenues and expenses at average rates for the period except for depreciation, depletion and amortization which are at the rates used for translation of the related assets.

Translation gains and losses are included in income.

d) Deferred Income Taxes

The company uses the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenue and expenses reflected in the financial statements in one year are considered for tax purposes in another year) result in increases or decreases in deferred income taxes.

e) Interim Financial Reports

Depreciation, depletion, repair and overhaul and other fixed overhead costs are provided for on an annual basis in relation to anticipated sales volume for the year and are charged against operations based on the sales volume during each interim period.

f) Depreciation and Depletion

Buildings, plant and equipment are depreciated over their estimated useful lives (buildings 25 years, plant and equipment 5 to 15 years) on a straight line basis. The costs of aggregate deposits are depleted on a unit-of-production method based on total estimated recoverable reserves.



Standard Industries Ltd.

NOTE 2. PROPERTY, PLANT AND EQUIPMENT

	In Thousands of Dollars	
	1978	1977
Land and aggregate properties.....	\$ 13,605	\$ 11,644
Buildings, plant and equipment	75,174	68,324
	<hr/>	<hr/>
Less accumulated depreciation and depletion	88,779	79,968
	39,802	34,443
	<hr/>	<hr/>
	\$ 48,977	\$ 45,525
	<hr/>	<hr/>

NOTE 3. LONG-TERM DEBT

	In Thousands of Dollars	
	1978	1977
Bank term credit, secured, repayable \$500,000 annually with the balance due December 31, 1985 (interest at 1½% above prime rate)	5,000	\$ 5,500
Bank term loans due 1978/1982 (interest at 1¼% above prime rate)	1,600	2,125
Mortgages payable, due 1978/1985 (interest at 8.6% — weighted average).....	2,806	3,691
Long-term notes, secured, payable by United States subsidiary, due 1988/1999 (interest at 6⁵/₈%) U.S. \$4,000,000.....	4,377	—
	<hr/>	<hr/>
Less current portion	13,783	11,316
	1,967	1,911
	<hr/>	<hr/>
	\$ 11,816	\$ 9,405
	<hr/>	<hr/>

Long-term debt matures as follows in the years ending March 31, 1979 \$1,967,000; 1980 \$1,629,000; 1981 \$1,309,000; 1982 \$1,063,000; 1983 \$670,000.

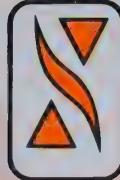
Proceeds of the U. S. dollar long-term notes that have not been used to purchase plant and equipment or to pay debt issue expenses are shown as Plant Acquisition Fund and are being held by a trustee in short-term investments. In accordance with the trust indenture, this fund will be applied to future purchases of plant and equipment in the United States.

An additional \$4,000,000 of bank term credit was authorized and has not yet been drawn. This amount will be drawn as required to provide funds for future capital investments.

NOTE 4. INCOME TAXES

The reduced rate of federal income tax and the accelerated depreciation write-offs available to Canadian manufacturers and processors have been used throughout 1977 and 1978. The lower federal tax rate on manufacturing and processing income reduced the 1978 provision by approximately \$290,000 (1977 — \$375,000).

Through the application of investment tax credits based on the acquisition of new plant and equipment, the 1978 federal income taxes were reduced by \$120,000 (1977 — \$180,000).



Standard Industries Ltd.

NOTE 5. CAPITAL STOCK

The authorized capital of the company consists of 10 common shares and 3,999,990 Class "A" and Class "B" convertible common shares. The Class "A" and Class "B" shares are convertible each into the other class on a share-for-share basis. Both classes rank equally in all respects except that tax-deferred dividends may be paid on the Class "B" shares out of tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand as defined in the Income Tax Act. The 10 authorized common shares are unissued.

At March 31, 1978, there remained outstanding an officer's option to purchase 62,500 shares at \$9.00 per share. This option expires March 31, 1983.

NOTE 6. PENSION PLAN

The company's share of the unfunded past service liabilities of the company's pension plans amounts to \$157,000 at March 31, 1978 (\$385,000 at March 31, 1977). The unfunded past service liabilities are being expensed and funded over not more than 12 years.

NOTE 7. REMUNERATION

Total direct remuneration of directors and senior officers amounted to \$505,000 (\$471,000 in 1977).

NOTE 8. ACQUISITION

On December 1, 1977, a United States subsidiary of the company purchased the assets of a business previously known as Sullivan Highway Products in Sullivan County, N. Y. The purchase accounting method has been used for this acquisition and its operations have been included in these financial statements from the acquisition date to December 31, 1977, the fiscal year-end of the subsidiary. The assets purchased consisted of receivables, inventories, land, plant and equipment and were purchased at their fair value of \$5,084,000 paid in cash. The cash for this purchase was provided in part by the issue of long-term notes and bank borrowing.

NOTE 9. ANTI-INFLATION ACT

The company is subject to the federal Anit-Inflation Act which provides, from October 14, 1975, for the restraint of profit margins, prices, dividends and compensation. These provisions are due to expire during the year ending March 31, 1979.

NOTE 10. SUBSEQUENT EVENT

The company is proceeding with a project for the manufacture of rock wool insulation, which will require an investment of approximately \$8,000,000 in the year ending March 31, 1979.



Financial Review

QUARTERLY SALES AND EARNINGS

Quarterly sales and earnings, which fluctuate because of the seasonal nature of the company's business, are shown in the tabulations at right for the past five years.

Quarterly sales (\$'000)	1978	years ended March 31			
		1977	1976	1975	1974
June 30	25,859	22,668	18,832	17,401	16,015
September 30	32,594	29,548	25,432	23,579	20,946
December 31	23,649	22,334	21,033	19,064	16,604
March 31	11,880	9,529	9,557	9,650	9,867
Year	93,982	84,079	74,854	69,694	63,432
Quarterly earnings* (cents per share)	1978	years ended March 31			
		1977	1976	1975	1974
June 30	46¢	38¢	33¢	32¢	30¢
September 30	62	55	48	39	37
December 31	47	34	49	43	40
March 31	15	13	23	28	25
Year	\$1.70	\$1.40	\$1.53	\$1.42	\$1.32
Earnings*/sales	5.7%	5.2%	6.5%	6.4%	6.5%

(*before extraordinary item)

The 12% increase in sales over last year resulted from an 8% increase in volume and average product price increases of 4%. The major volume increase during 1978 came as a result of sales from the pressure pipe plant which came into production during the last quarter of 1977. Cost of sales increased 11% or a somewhat slower rate than sales due to the changes in the product mix in sales. Administration and selling expenses and depreciation expense increased at the same rate as sales, again reflecting the effect of the new pressure pipe operation. Interest costs declined 18% from last year, resulting in a substantial improvement in earnings. Interest costs, based on the bank prime rate, were lower during the year and overall borrowing was reduced by the improved working capital position.

INCOME TAXES

Income taxes for the year to March 31, 1978 were 43% of income before taxes compared with 40% in the year to March 31, 1977. The higher 1978 rate reflects a \$60,000 decrease in the investment tax credit applicable to certain capital additions during the year. Also, the lower rate of income tax on manufacturing and processing income was applicable to a smaller proportion of the company's earnings during the year.

Tax deferments at \$410,000, arising mainly from capital cost allowances, were \$770,000 less than the previous year. Although the fast write-offs for manufacturers were again applicable to a large proportion of our additions to plant and equipment, the 1978 Canadian additions at \$6,308,000 were well below the \$8,799,000 spent last year.

WORKING CAPITAL

At March 31, 1978, the company's working capital was \$8,051,000, a significant increase of \$1,588,000 over the preceding year. The fixed assets of the U.S. operation were financed by issue of long-term notes at an interest rate of 6 $\frac{5}{8}$ %. In Canada, working capital from operations was sufficient to finance the capital investment program as well as meet the dividend and debt repayment requirements plus improve the working capital position as noted above. Greater receivable balances at the year-end result from the higher level of sales in the fourth quarter and for the same reason inventory levels of finished products have been run down from year earlier levels.

The income taxes payable is due two months after the year-end, as a result our improved cash balances will soon be reduced.



Productivity is the aim . . .

Our superintendents, supervisors and foremen are the ones who see that we make the most effective use of our production resources. Some of them are pictured on this page.



Bob Albrough, Gary Walton and Roy Haggart, plant superintendents, Haldimand Quarries and Consolidated Sand & Gravel.



Terry Warring, plant foreman, York Block and Building Supply.



Neil Wyatt, Karl Schneider and Fleming Hellum, plant superintendents, Concrete Pipe Company.



Paul Hale, fleet superintendent for McCord & Company.



Malcolm McNeil, mechanical superintendent, and Walter Norton, general superintendent, Standard Paving Maritime Limited.



Dave Bacon, superintendent, and Marcello Alberton, general foreman, Oaks Precast Industries.

Rick Collins, batcher, Bert Scheer, supervisor and Leon Stephenson, maintenance foreman, Red-D-Mix Concrete Co.



Financial Statistics — 1969 to 1978

(in thousands of dollars — except per share amounts)

Years ended March 31

	1978	1977	1976	1975
INCOME				
Sales and contract revenue	<u>93,982</u>	<u>84,079</u>	<u>74,854</u>	<u>69,694</u>
Income before extraordinary item	<u>5,342</u>	<u>4,404</u>	<u>4,830</u>	<u>4,466</u>
Gain on disposal of properties and shares	<u>641</u>		<u>1,217</u>	<u>366</u>
Net income	<u>5,983</u>	<u>4,404</u>	<u>6,047</u>	<u>4,832</u>
FINANCIAL POSITION				
Working capital	<u>8,051</u>	<u>6,463</u>	<u>7,111</u>	<u>5,761</u>
Fixed assets — net	<u>48,977</u>	<u>45,525</u>	<u>42,193</u>	<u>35,323</u>
Other assets	<u>3,335</u>	<u>1,696</u>	<u>1,705</u>	<u>1,717</u>
	<u>60,363</u>	<u>53,684</u>	<u>51,009</u>	<u>42,801</u>
Long-term debt	<u>11,816</u>	<u>9,405</u>	<u>10,315</u>	<u>8,447</u>
Deferred income taxes	<u>11,157</u>	<u>10,747</u>	<u>9,566</u>	<u>7,390</u>
	<u>22,973</u>	<u>20,152</u>	<u>19,881</u>	<u>15,837</u>
Shareholders' equity	<u>37,390</u>	<u>33,532</u>	<u>31,128</u>	<u>26,964</u>
CHANGES IN FINANCIAL POSITION				
Income before extraordinary item	<u>5,342</u>	<u>4,404</u>	<u>4,830</u>	<u>4,466</u>
Depreciation and depletion	<u>6,102</u>	<u>5,468</u>	<u>4,988</u>	<u>4,369</u>
Deferred income taxes	<u>410</u>	<u>1,181</u>	<u>2,151</u>	<u>1,421</u>
Funds from operations	<u>11,854</u>	<u>11,053</u>	<u>11,969</u>	<u>10,256</u>
Gain on disposal of properties and shares ...	<u>641</u>		<u>1,217</u>	<u>366</u>
Long-term debt increase (decrease)	<u>2,412</u>	<u>(911)</u>	<u>1,868</u>	<u>(85)</u>
	<u>14,907</u>	<u>10,142</u>	<u>15,054</u>	<u>10,537</u>
Capital investment	<u>9,554</u>	<u>8,799</u>	<u>11,833</u>	<u>9,353</u>
Dividends	<u>2,125</u>	<u>2,000</u>	<u>1,883</u>	<u>1,574</u>
Mortgages receivable increase (decrease)	<u>346</u>	<u>(149)</u>	<u>(145)</u>	<u>(31)</u>
Other	<u>1,294</u>	<u>140</u>	<u>133</u>	<u>114</u>
	<u>13,319</u>	<u>10,790</u>	<u>13,704</u>	<u>11,010</u>
Increase (decrease) in working capital	<u>1,588</u>	<u>(648)</u>	<u>1,350</u>	<u>(473)</u>
PER SHARE*				
Income before extraordinary item	<u>1.70</u>	<u>1.40</u>	<u>1.53</u>	<u>1.42</u>
Gain on disposal of properties and shares	<u>.20</u>		<u>.39</u>	<u>.11</u>
Net income	<u>1.90</u>	<u>1.40</u>	<u>1.92</u>	<u>1.53</u>
Dividends on "A" shares and previous common shares	<u>.67½</u>	<u>.63¾</u>	<u>.60</u>	<u>.50</u>
Shareholders' equity	<u>11.88</u>	<u>10.65</u>	<u>9.89</u>	<u>8.57</u>

*Reflecting the 3 for 1 share split approved on November 22, 1972.

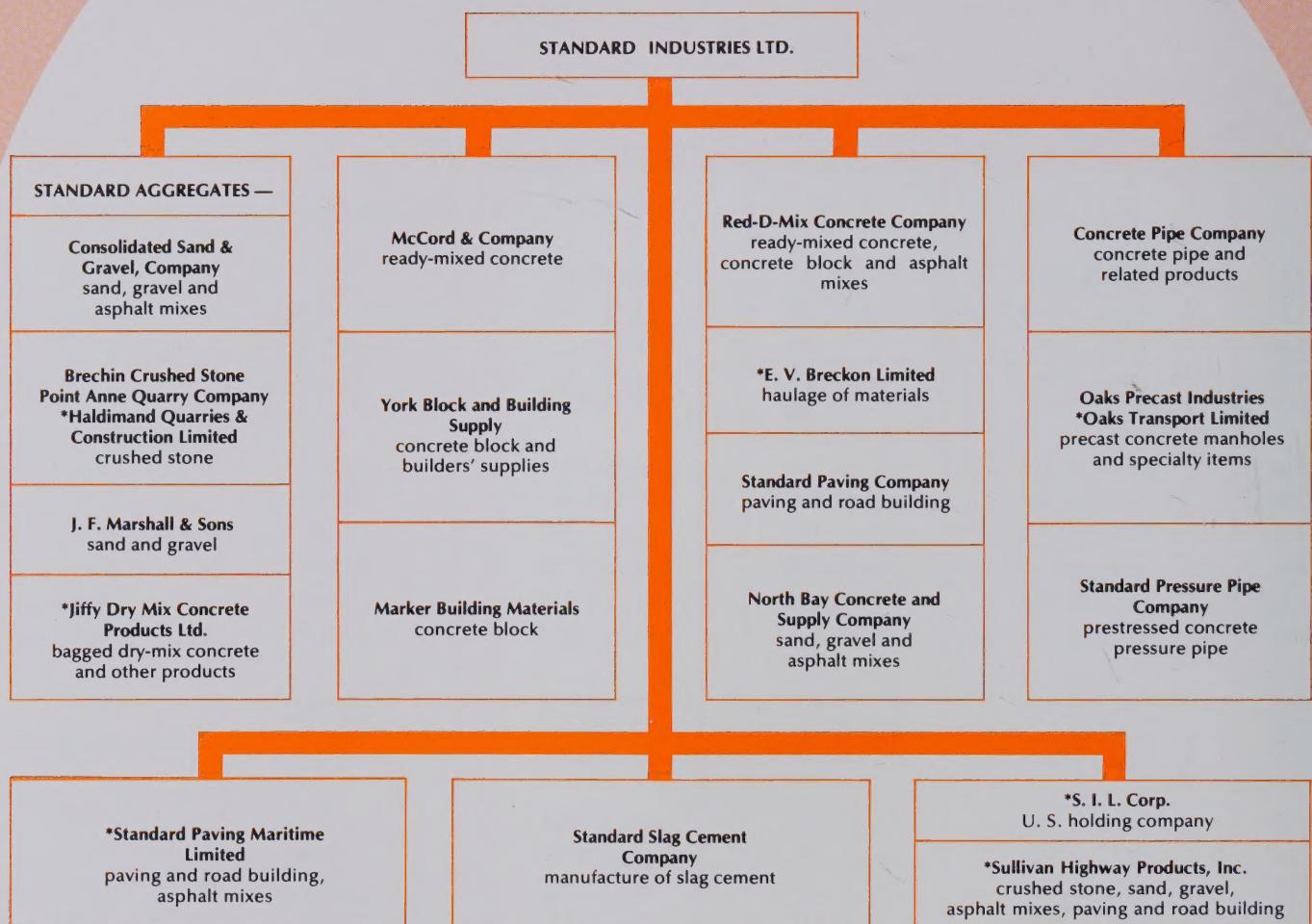


1974	1973	1972	1971	1970	1969
63,432	53,377	45,251	39,864	39,652	42,865
4,121	2,590	1,381	781	871	1,202
16	2,325	545	—	1,013	28
4,137	4,915	1,926	781	1,884	1,230
6,234	4,203	4,567	4,856	4,632	4,823
30,339	23,383	18,866	15,655	14,907	13,928
1,272	1,272	(25)	207	927	191
37,845	28,858	23,408	20,718	20,466	18,942
8,532	4,085	3,408	2,913	2,992	2,805
5,969	4,357	3,467	2,660	2,598	2,479
14,501	8,442	6,875	5,573	5,590	5,284
23,344	20,416	16,533	15,145	14,876	13,658
4,121	2,590	1,381	781	871	1,202
3,643	2,908	2,351	2,177	2,026	1,685
1,213	752	807	62	405	954
8,977	6,250	4,539	3,020	3,302	3,841
16	2,325	545	—	1,013	28
3,541	676	495	(80)	187	1,742
12,534	9,251	5,579	2,940	4,502	5,611
9,871	7,610	5,562	2,925	3,006	4,524
1,266	772	538	512	666	205
(305)	700	366	(720)	735	(29)
(329)	533	(598)	—	286	(123)
10,503	9,615	5,868	2,717	4,693	4,577
2,031	(364)	(289)	223	(191)	1,034
.132	.84	.45	.25	.28	.39
.01	.75	.18	—	.33	.01
1.33	1.59	.63	.25	.61	.40
.40½	.25	.17½	.16²/₃	.21¾	.06²/₃
7.42	6.60	5.38	4.93	4.84	4.44



Corporate Organization

DIVISIONS AND SUBSIDIARIES



*subsidiaries — wholly-owned by Standard Industries Ltd. (except Sullivan which is wholly-owned by S. I. L. Corp.)

Standard Industries Ltd.	Standard Aggregates	Jiffy Products	McCord & Company	Marker Building Materials
RED-D-MIX				
Red-D-Mix Concrete Company	Concrete Pipe Company	Oaks Precast Industries	Standard Pressure Pipe	Sullivan Highway Products

STANDARD INDUSTRIES LTD.

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